

Message Text

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SUBJECT: ECONOMIC TRENDS IN FRANCE AND THEIR IMPLICATION FOR THE
UNITED

STATES: UPDATING OF NOVEMBER SEMI-ANNUAL REPORT - CERP 0004

REF: PARIS A-798, NOVEMBER 23, 1973

1. EMBASSY SUGGESTS FOLLOWING MATERIAL BE INCLUDED IN SEPARATE
BOX ALONG WITH PUBLISHED VERSIONN NOVEMBER 1973 ECONOMIC TRENDS
REPORT:

2. BEGIN TEXT:

THE EMBASSY IN PARIS NOTES THAT SINCE THE PREPARATION OF THE
REPORT IN MID-NOVEMBER, PREDICTIONS ABOUT THE EFFECT OF THE OIL
CRISIS ON THE FRENCH ECONOMY HAVE BECOME CONSIDERABLY MORE PESSIMISTIC.

THESE PREDICTIONS ARE BASED TO A LARGE DEGREE ON AN ANTICIPATED
DECLINE IN FRENCH EXPORTS TO EUROPEAN COUNTRIES MORE SEVERELY
HIT BY THE CRISIS THAN FRANCE ITSELF. MORE THAN 55 PERCENT OF
FRANCE'S EXPORTS GO TO THE REST OF THE COMMON MARKET: POST-CRISIS
ESTIMATES FOR THE 1974 EVOLUTION OF OUTPUT IN THE COMMUNITY AS
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A WHOLE HAVE RANGED FROM NO GROWTH TO A 2 PERCENT DROP, COMPARED

TO 1973. UNDER THESE CIRCUMSTANCES FRENCH EXPORTS IN 1974 MIGHT INCREASE BY ONLY 4 OR 5 PERCENT, COMPARED TO THE PREVIOUSLY ANTICIPATED RATE OF 15 PERCENT. INTERNAL DEMAND COULD ALSO WEAKEN, WITH SOME REDUCTION IN INVESTMENT AND CONSUMPTION. THE RESULT WOULD BE AT BEST A CUT IN REAL GROWTH IN 1974 -- FROM THE 5 PERCENT FORECAST EARLIER TO PERHAPS 2 PERCENT OR LESS. IF RECESSIONARY FORCES GATHERED MOMENTUM, THERE MIGHT EVEN BE AN ABSOLUTE DECLINE IN THE REAL NATIONAL PRODUCT DURING A PART OR ALL OF THE YEAR. WHETHER AND TO WHAT EXTENT DEVELOPMENTS OF THIS KIND WILL ACTUALLY MATERIALIZE DEPENDS, OF COURSE, UPON THE SEVERITY AND DURATION. OF CUTS IN SUPPLIES OF ARAB OIL TO EUROPE. THE LONGER THE CRISIS LASTS, HOWEVER, THE MORE LIKELY SOME SUCH EVOLUTION BECOMES.

AMONG FRENCH INDUSTRIES WHICH WOULD BE ESPECIALLY HARD HIT BY THE CRISIS ARE: AUTOMOBILES, RUBBER AND CHEMICALS, AND TEXTILES, WHICH ACCOUNT FOR CLOSE TO 15 PERCENT OF FRENCH INDUSTRIAL PRODUCTION, AND CLOSE TO 7 PERCENT OF THE TOTAL LABOR FORCE. STEEL, ELECTRICAL CONSTRUCTION AND PROBABLY MECHANICAL CONSTRUCTION WOULD BE LIKELY TO BE LESS AFFECTED.

THESE DEVELOPMENTS IN THE FRENCH ECONOMY ALSO IMPLY A REVISION IN THE PROSPECTS FOR U.S. SALES. ALTHOUGH TOO EARLY TO BE SPECIFIC, THE MARKET FOR CAPITAL GOODS MAY BE DULLED, EXCEPT FOR PRODUCTS INVOLVED IN THE PRODUCTION OF ENERGY. DEMAND FOR ITEMS RELATED TO TOURISM MAY FALL. MOST CONSUMER GOODS SHOULD, HOWEVER, CONTINUE TO ENJOY HIGH DEMAND FOR THE NEAR TERM.

3. END TEXT.IRWIN

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